**OPPORTUNITY COSTS**

What is an opportunity cost? It is the cost of rejecting one alternative for another. For example, if Robin's Donuts decides to produce lemon coated doughnuts instead of chocolate covered doughnuts, the managers should consider the opportunity cost (profit lost on the chocolate donuts). Sometimes companies and managers become so caught up in special projects, they may overlook other important alternatives.

Opportunity costs are not entered into the accounting records. They are management decisions made which in the long run, affect the accounting records and, in the process, may use accounting records to assist managers in their decisions.

[Opportunity cost](http://www.yourdictionary.com/opportunity-cost) is the value of something when a particular course of action is chosen. Simply put, opportunity cost is what you must forgo in order to get something. The benefit or value that was given up can refer to decisions in your personal life, in a company, in the economy, in the environment, or on a governmental level.

Examples of Opportunity Cost:

* Someone gives up going to see a movie to study for a test in order to get a good grade. The opportunity cost is the cost of the movie and the enjoyment of seeing it.
* At the ice cream parlor, you have to choose between rocky road and strawberry. When you choose rocky road, the opportunity cost is the enjoyment of the strawberry.
* A player attends baseball training to be a better player instead of taking a vacation. The opportunity cost was the vacation.
* Jill decides to drive to work instead of taking the bus. It takes her 90 minutes to get there and the bus ride would have been 40, so her opportunity cost is 50 minutes.
* This semester you can only have one elective and you want both basket-weaving and choir. You choose basket weaving and the opportunity cost is the enjoyment and value you would have received from choir.
* The opportunity cost of taking a vacation instead of spending the money on a new car is not getting a new car.
* When the government spends $15 billion on interest for the national debt, the opportunity cost is the program the money might have been spent on, like education or healthcare.
* If you decide not to go to work, the opportunity cost is the lost wages.
* For a farmer choosing to plan corn, the opportunity cost would be any other crop he may have planted, like wheat or sorghum.
* Tony buys a pizza and with that same amount of money he could have bought a Coke and a hot dog. The opportunity cost is the Coke and hot dog.
* You decide to spend $80 on some great shoes and do not pay your electric bill. The opportunity cost is having the electricity turned off, having to pay an activation fee and late charges. You might also have food in the fridge that gets ruined and that would add to the total cost.
* As a consultant, you get $75 an hour. Instead of working one might, you go to a concert that costs $25 and lasts two hours. The opportunity cost of the concert is $150 for two hours of work.
* David decides to quit working and got to school to get further training. The opportunity cost of this decision is the lost wages for a year.
* Caroline has $15,000 worth of stock she can sell now for $20,000. She wanted to wait two months because the stock was expected to increase. She decides to sell now. The opportunity cost would be determined in two months and would be the difference between the $20,000 and the price she would have gotten if she sold the stock then.
* Jorge really wants to eat at a new restaurant and can only afford it if he does not order a beverage. The opportunity cost is the beverage.
* A business owns its building. If the company moves, the building could be rented to someone else. The opportunity cost of staying there is the amount of rent the company would get.
* When Tobias graduated high school, he decided to go to college. The opportunity cost of going to college is the wages he gave up working full time for the number of years he was in college.
* Mario has a side business in addition to his regular job. If he decides to spend more time on his side business, the opportunity cost is the wages he lost from his regular job.
* Mr. Brown makes $400 an hour as an attorney and is considering paying someone $1000 to paint his house. If he decides to do it himself, it will take four hours. His opportunity cost for doing it himself is the lost wages for four hours, or $1600

Video: <https://youtu.be/8QLkhmsvKLo>